

**Oral Summary**

**Testimony of  
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*The Economic Effects of Significant*  
*U.S. Import Restraints: Fifth Update***

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We are pleased to have the opportunity to submit the views of the American Sugar Alliance. The ASA is the national coalition of growers, processors, and refiners of sugarbeets and sugarcane.

We have participated in previous investigations in this series.

In our view, the ITC has underestimated the damage to the U.S. sugar industry that would result from sugar import-tariff elimination in previous reports.

Furthermore, the ITC has overestimated, and failed to document adequately, the supposed benefits to society from sugar tariff elimination.

Because it underestimated the costs and overestimated the benefits, the ITC's conclusion of a modest net *benefit* to society if U.S. sugar tariffs were removed is incorrect. In fact, the net *cost* to society would be substantial.

Absent U.S. sugar import tariffs, the U.S. sugar price would fall rapidly to the world dump market price, which has averaged only about half the world average cost of producing sugar over the past two decades. Few, if any, American sugar farmers could survive at producer prices below 10 cents per pound and 141,000 American jobs in the sugar industry alone would be in jeopardy. American corn sweetener industry jobs would be threatened as well, as the low priced sugar replaces corn sweetener in some uses.

Gains to consumers are illusory because food manufacturers and retailers historically have not passed savings from lower ingredient prices along to consumers. Even if food manufacturers did pass along some savings on lower sugar prices, the difference in product prices would be small. Sugar's share of sweetened product costs is quite small. At U.S. income levels, one cannot argue that consumption of a product would be affected by a minuscule change in the retail price of the product.



We hope that in this Fifth Update the ITC will review and correct the workings of its model. It would also be useful for the ITC to identify the factors that would prevent the U.S. sugar price from dropping to, or very close to, world price levels if, after such review, it again comes to that conclusion.

We would note that even with the ITC's underestimated price effects, the ITC's projection of the impact on the U.S. sugar industry workers and the communities that depend on the sugar industry would still be devastating – a 25 percent decline on employment in sugar manufacturing and a 34 percent decline in sugar beet and sugarcane crop production. We believe the impact of the removal of import tariffs would in reality be even greater.

U.S. sugar producers are efficient by world standards, with costs of production below the world average, but none could survive if the U.S. price fell to the world prices that have prevailed over the past few decades.

In undertaking this Fifth Update, ITC investigators will note that world market prices are at unusually high levels, close to U.S. support price levels. There is speculation that new factors – primarily increased use of sugar for ethanol production – could push world sugar prices to much higher levels than in the past. In this event, concerns about the price gap could become moot.

However, until such a trend has been established for significant period of time, ITC analysts should proceed on the assumption that world sugar prices are likely to return to the very depressed levels that have prevailed in recent decades. The world price has averaged less than 10 cents per pound for the past 20 years.

We would draw your attention to three aspects of the Fourth Update that we would hope would be corrected or clarified in the coming report:

1. **Price Identification and Changes.** The discussion of domestic sugar prices is extremely confusing. Pricing in the U.S. sugar market is not complicated. There are: 1) the raw cane sugar price; 2) the wholesale refined sugar price; and 3) the retail refined sugar price. The first two prices are paid to producers of domestic or imported raw and refined sugar; the latter price is the consumer price at the grocery store. All three are routinely reported by USDA and/or the Bureau of Labor Statistics.

But in its discussion of prices, the ITC refers to six different price measures. It is unclear how these price measures relate to actual market prices.

The ITC predicts changes for each of these prices. But what each represents, and why the price changes differ widely, is also unclear.

For example: despite an alleged domestic-to-world price gap of 165 percent for raw cane sugar, the removal of import barriers would cause the U.S. price for raw cane sugar to fall only 44 percent and that for "sugar manufacturing" by only 8 percent.

ITC projects the mere 8-percent price drop despite its projections of an increase in sugar imports of about 2 million tons. Added to U.S. minimum import requirements, the new import



...to percent of U.S. production. Certainly, an oversupply of the magnitude ITC predicts would devastate the U.S. sugar market and price.

Past history is instructive. During 1999-2000, the U.S. sugar market was oversupplied by about 400,000 tons relative to past supply-demand balance. Market prices for raw cane and refined beet sugar plummeted – by as much as 30 percent. Certainly an oversupply of some 2 million tons, as the ITC predicts, would have a far greater price-depressing effect.

2. **Consumer Benefits.** The ITC has in the past projected benefits to consumers from lower domestic producer prices for sugar, and to workers in sweetened-product manufacturing, from increased output and exports. We regard these projected benefits to be illusory.

History has shown that food manufacturers and retailers absorb their savings on lower raw material costs as increased profits rather than passing the savings along to consumers. Furthermore, at U.S. income levels, U.S. consumer demand for sweetened products is relatively price inelastic. Even if there were a modest decline in sweetened-product prices, there is little chance this would spur increased demand for these products.

A survey of candy products that are high sugar revealed that sugar, priced at the wholesale refined level, constitutes on average 5 percent of the retail product cost – or 8 cents of the \$1.71 average cost of a bag of candy. If wholesale sugar prices drop 8 percent, as ITC predicts, and candy manufacturers and retailers pass along to consumers 100 percent of their savings on the cheaper sugar, this would reduce the cost of a bag of candy by 0.6 cents – from \$1.71 to \$1.70. ITC essentially bases its projection of a significant consumption gain on consumers being enticed by such a tiny price differential.

At U.S. income levels, a price change of this amount, were it actually to occur, would make no measurable difference on demand for the product. Yet the ITC's conclusion that job gains in food manufacturing would more than offset job losses in sugar production is entirely based on the premise that a tiny change in price would spur enormous demand growth.

2. **Export Growth.** The ITC projects a 112 percent increase in U.S. sugar exports if U.S. cane refiners and food manufacturers had access to cheaper sugar.

This makes no sense. The U.S. re-export program already permits refiners and food manufacturers to import world-market-priced sugar for re-export as refined sugar or as sweetened product, so that they can compete for foreign markets. Clearly, the reduction in U.S. sugar prices would make no difference whatsoever to the refiners and manufacturers who seek to export refined sugar and products.

The ITC itself acknowledges the existence of the re-export program in the Fourth Update. Yet the ITC apparently bases its projection of further job gains in the refining and manufacturing sector on the notion the program does *not* exist.



Three additional comments:

1. **Developing-Country Benefits.** Current trade negotiations have focused on developing countries. The ITC should recognize the considerable benefits that accrue to developing countries from their preferential access to the U.S. market. The ITC should also recognize the devastating impact that price declines resulting from the elimination of the TRQ system would have on many of these countries. Of the 41 quotaholding countries, 39 are developing. Most are supportive of U.S. sugar policy, because of the economic benefits it provides.
2. **Program Flexibility.** In light of developments over the past year, it is important that the ITC recognize U.S. sugar policy's flexibility. The TRQ system permits the Administration to cover increased demand or reduced production efficiently. American sugar producers were hit by an unprecedented series of weather anomalies that seriously reduced production in 2005 – drought in Western beet areas, excessive rain in the Upper Midwest, and three massive hurricanes striking the cane regions of Louisiana and Florida.

USDA responded by more than doubling sugar imports, and consumer supplies and prices remained steady. Retail refined sugar prices averaged 43 cents per pound in 2005, essentially the same level as in 1990 and even in 1980. Prices in the rest of the developed world average 56 cents per pound, 30 percent higher than in the U.S.

3. **Food Manufacturing Jobs.** The Sweetener Users in their testimony refer to a recent Department of Commerce report that is fundamentally flawed. Most egregiously, it estimated that U.S. sugar policy defends fewer than 2,300 American jobs; independent analysis puts the number of American sugar-producing jobs at more than 141,000.

Relying mainly on media reports and company press releases, Commerce claimed that high sugar prices retard growth in the food manufacturing sector and have caused candy company flight to other countries. But Commerce ignored its own key finding – that, during the 1997-2002 period studied, production growth in the sweetened-product manufacturing sector was *more than double* that of non-sweetened foods – 10.5% versus 5.2%.

Commerce also ignored solid data on the huge gap between the U.S. and other countries for the labor and other costs that dominate food and other manufacturing industries.

In summary, we ask that the ITC review its analysis on sugar market pricing and jobs, and reassess the importance of U.S. sugar import restraints to the U.S. economy.

We thank you again for the opportunity to participate in this investigation and to testify today.